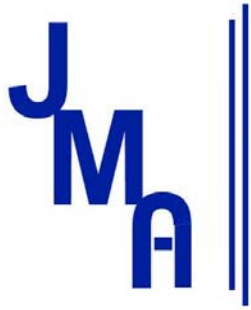


HIGGINS LAKE UTILITIES AUTHORITY
ROSCOMMON COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008

HIGGINS LAKE UTILITY AUTHORITY

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

October 9, 2008

Utility Authority Board
Higgins Lake Utilities Authority
Higgins Lake, MI 48627

I have audited the accompanying financial statements of the business-type activities of the Higgins Lake Utilities Authority as of and for the year ended June 30, 2008, which comprise the Utility Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Higgins Lake Utilities Authority's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Higgins Lake Utilities Authority as of June 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

MEMBER MACPA and AICPA

Page 2
Utility Authority Board
Higgins Lake Utilities Authority
October 9, 2008

In accordance with *Government Auditing Standards*, I have also issued my report dated October 9, 2008 on my consideration of Higgins Lake Utilities Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing to internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis on page 3 through page 5 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that comprise the Higgins Lake Utility Authority's basic financial statements. The items identified as supplementary information in the table of contents; the combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Higgins Lake Utilities Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

HIGGINS LAKE UTILITY AUTHORITY MANAGEMENT'S DISCUSSION & ANALYSIS

As management of the Higgins Lake Utility Authority (the "Utility Authority"), we offer readers of the Utility Authority's financial statements this narrative overview and analysis of the financial activities of the Utility Authority for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the Utility Authority exceeded its liabilities at the close of the most recent fiscal year by \$570,778 (*net assets*). Of this amount, \$381,828 (*unrestricted net assets*) may be used to meet the Utility Authority's ongoing obligations.
- As of the close of the fiscal year, the Authority was still in the process of building the sewer facility and had \$2,870,949 in construction in process.
- The Authority had \$2,681,999 in bond proceeds with another \$1,943,001 expected in the following year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Utility Authority's basic financial statements. The Utility Authority's basic financial statements consist of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Utility Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Utility Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility Authority is improving or deteriorating.

The *statement of activities* presents information showing how the Utility Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

HIGGINS LAKE UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Both of the Government-wide financial statements present functions of the Utility Authority that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The business-type activities of the Utility Authority currently include providing sewer services.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Utility Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Authority currently has one proprietary fund to account for the sewer activity.

Proprietary funds. Higgins Lake Utility Authority maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the Government-wide financial statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 9 to 13 of this report.

Government-wide Financial Analysis. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Utility Authority, assets exceeded its liabilities by \$570,778 at the close of the most recent fiscal year.

A portion of the Utility Authority's net assets (33%) reflects its investment in capital assets (e.g., land, land improvements, buildings, and equipment); less any related debt used to acquire those assets that is still outstanding. The Utility Authority uses these capital assets to provide sewer services to the community; consequently, these assets are *not* available for future spending.

Utility Authority's Net Assets

Business-Type Activities		<u>June 30, 2008</u>
Assets		
Current and Other Assets		\$ 891,509
Capital Assets, Net		<u>2,870,949</u>
Total Assets		<u>3,762,458</u>
Liabilities		
Current Liabilities		549,681
Long Term Liabilities		<u>2,641,999</u>
Total Liabilities		<u>3,191,680</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt		188,950
Unrestricted		<u>381,828</u>
Total Net Assets		<u>\$ 570,778</u>

HIGGINS LAKE UTILITY AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Utility Authority's net assets increased by \$570,778 during the current fiscal year. Unrestricted net assets - the part of the net assets that can be used to finance day to day operations, increased by \$381,828 or 100% during the fiscal year ended June 30, 2008.

Utility Authority's Changes in Net Assets

Business-Type Activities	<u>June 30, 2008</u>
Revenue	
Program Revenue	
Charges for Services	\$ -0-
Non Operating Revenue:	
Interest Earnings	7,267
Grants	304,899
Special Assessments	<u>330,868</u>
Total Revenue	643,034
Expenses	
Sewer	<u>72,256</u>
Total Expenses	<u>72,256</u>
Increase (Decrease) in Net Assets	570,778
Net Assets, Beginning of Year	<u>-0-</u>
Net Assets, End of Year	<u><u>\$ 570,778</u></u>

Business-type Activities. The sewer system was not completed as of June 30, 2008. Therefore, there are no operating income and most of the expenses incurred are related to starting the operations.

Financial Analysis of Government's Funds. As noted earlier, the Utility Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Capital Assets. The Utility Authority's investment in capital assets for its business-type activities as of June 30, 2008, amounted to \$2,870,949. This is made up completely of construction in progress on the new sewer system.

Requests for Information. This financial report is designed to provide a general overview of the Utility Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

**Higgins Lake Utility Authority
7851 W. Higgins Lake Drive
Higgins Lake, MI 48627**

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2008

	Business-type Activities Enterprise Fund
ASSETS	
Current Asset:	
Cash and cash equivalents	\$ 891,509
Total Current Assets	<u>891,509</u>
Non-Current Assets:	
Construction in progress	<u>2,870,949</u>
Total Noncurrent Assets	<u>2,870,949</u>
Total Assets	<u>3,762,458</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 507,179
Due to townships	2,502
Current portion of long-term debt	<u>40,000</u>
Total Current Liabilities	<u>549,681</u>
Noncurrent Liabilities:	
Long-term debt	<u>2,641,999</u>
Total Noncurrent Liabilities	<u>2,641,999</u>
Total Liabilities	<u>3,191,680</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	188,950
Unrestricted	<u>381,828</u>
Total Net Assets	<u>\$ 570,778</u>

The accompanying notes are an integral part of these statements

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET FUND ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	Business-type Activities Enterprise Fund
OPERATING REVENUES	
Charges for services	\$ -0-
Total Operating Revenues	<u>-0-</u>
OPERATING EXPENSES	
Contracted services	666
Board per diems	2,540
Professional services	58,322
Office expenses	3,872
Licenses and permits	<u>6,856</u>
Total Operating Expenses	<u>72,256</u>
OPERATING INCOME (LOSS)	<u>(72,256)</u>
NON OPERATING REVENUES (EXPENSES)	
EPA Grant	304,899
Interest income	7,267
Special Assessments	<u>330,868</u>
Net Nonoperating Revenues (Expenses)	<u>643,034</u>
CHANGE IN NET ASSETS	570,778
NET ASSETS - July 1, 2007	<u>-0-</u>
NET ASSETS - June 30, 2008	<u><u>\$ 570,778</u></u>

The accompanying notes are an integral part of these statements.

HIGGINS LAKE UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2008

	Business-type Activities Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash payments to suppliers for goods and services	\$ (69,754)
Net Cash Provided (Used) by Operating Activities	<u>(69,754)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Bond proceeds	2,681,999
Construction costs	(2,363,770)
Grant proceeds	304,899
Special assessment proceeds	<u>330,868</u>
Net cash provided by capital and related financing activities	<u>953,996</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>7,267</u>
NET increase (decrease) in cash	891,509
CASH - July 1, 2007	<u>-0-</u>
CASH - June 30, 2008	<u><u>\$ 891,509</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	
Operating income (loss)	\$ (72,256)
Adjustments to reconcile net income to cash provided by operating activities:	
Increase (decrease) in due to Townships	<u>2,502</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (69,754)</u></u>

The accompanying notes are an integral part of these statements.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Higgins Lake Utility Authority ("the Utility Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Utility Authority:

Reporting Entity

The Utility Authority was created on February 16, 2007, under Public Act 233 of 1955 to create and operate a sewage disposal and water supply system in Lyon Township of Roscommon County and Beaver Creek Township of Crawford County. The Utility Authority operates under an appointed Utility Authority Board composed of three members appointed by the Lyon Township Board, one member appointed by the Beaver Creek Township Board, and a fifth member appointed by mutual consent of both boards. Not more than one member shall be an elected township official from each township. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Utility Authority's reporting entity, and which organizations are legally separate, component units of the Utility Authority. Based on the application criteria, the Utility Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of revenues, expenses and changes in net assets) report information as a whole on all of the nonfiduciary activities of the Utility Authority. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All the Utility Authority's government-wide activities are considered business-type activities.

The accounts of the Utility Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. Currently the Authority has only one fund for the sewer activity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in accounts and reported in financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Utility Authority reports the Sewer Fund account for the activity of the sewage collection system.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with standards of the Governmental Accounting Standards Board. The Utility Authority has elected to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods and services or privileges provided; (2) operating grants and contributions; (3) capital grants and contributions, including special assessment (if any).

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal revenue of the proprietary fund relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments (certificates of deposit) with a maturity of 12 months or less.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure are reported in the business-type activities column of the government-wide financial statements. Capital assets are defined by the Utility Authority as assets with an initial individual cost of more than \$1000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets (Continued)

Property, plant, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Sewer System	50 years
Equipment	5-10 years

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long term obligations (if any) are reported as liabilities in the business-type activities and the proprietary fund statement of net assets.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could vary from those estimates.

NOTE B - DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits are in one financial institution in the name of the Higgins Lake Utility Authority Treasurer. Michigan Compiled Laws, Section 129.91, as amended, authorizes the Utility Authority to deposit and invest in the accounts of a state or nationally chartered bank, a state or federally chartered savings and loan association, a savings bank, or a credit union whose deposits are insured by an agency of the U.S. government and which maintains a principal office or branch office in this state under the law of this state of the United States; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE B - DEPOSITS AND INVESTMENTS (CONTINUED)

The Utility Authority's investments are in accordance with statutory authority.

At year-end, the Utility Authority's deposits were reported in the basic financial statements in the following categories:

	<u>Business-type Activities</u>
Cash and cash equivalents	<u>\$ 891,509</u>

The bank balance of the Utility Authority's deposits is \$891,859, of which \$100,000 is covered by federal depository insurance.

Investments are classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the Utility Authority or its agent in the Utility Authority's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Utility Authority's name.

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Utility Authority's name).

The Utility Authority did not have any investments to be classified as to risk at year end.

NOTE C - RISK MANAGEMENT

Higgins Lake Utility Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last fiscal year.

HIGGINS LAKE UTILITY AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

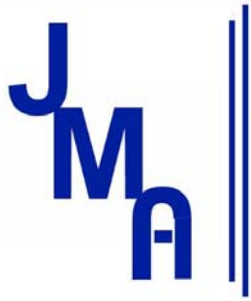
NOTE D - LONG TERM DEBT

The Utility Authority's outstanding debt at June 30, 2008 is composed of two issues of sewage disposal revenue bonds. Both series are payable, both as to principal and interest, solely from the net revenues of the sewer system.

	<u>Balance July 1 2007</u>	<u>Additions (Reductions)</u>	<u>Balance June 30 2008</u>	<u>Due Within One Year</u>
Bond No. 1 - Issue date 1/8/08 Original amount - \$810,000 Interest at the rates of 4.0 to 5.0% due semi-annually commencing 10/8/08. Principal due annually in amounts \$40,000 commencing 10/8/08. Final Payment due 10/1/27	\$ -0-	\$ 810,000	\$ 810,000	\$ 40,000
Bond No. 2 - issue date 9/20/07 Original amount - \$3,815,000 Interest at the rate of 1.625% due semi-annually commencing 10/1/08. Principal due annually in amounts ranging from \$165,000 to \$220,000 commencing 10/1/09. Final payment due 10/1/28.	<u>-0-</u>	<u>1,871,999</u>	<u>1,871,999</u>	<u>-0-</u>
Totals	<u>\$ -0-</u>	<u>\$ 2,681,999</u>	<u>\$2,681,999</u>	<u>\$ 40,000</u>

Future payments due are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30,			
2009	\$ 40,000	\$ 58,653	\$ 98,653
2010	205,000	63,779	268,779
2011	205,000	59,498	264,498
2012	210,000	55,176	265,176
2013	210,000	50,814	260,814
2014	215,000	46,411	261,411
2015	215,000	41,867	256,867
2016	220,000	37,282	257,282
2017	220,000	32,657	252,657
2018-2028	<u>941,999</u>	<u>145,038</u>	<u>1,087,037</u>
	<u>\$2,681,999</u>	<u>\$ 591,175</u>	<u>\$3,273,174</u>



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 9, 2008

Utility Authority Board
Higgins Lake Utility Authority
Higgins Lake, MI 48627

Dear Board:

I have audited the accompanying financial statements of the Higgins Lake Utility Authority for the year ended June 30, 2008, and issued my report thereon dated October 9, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Higgins Lake Utility Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Higgins Lake Utility Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

Segregation of Duties

The idea of segregation of duties is that two or more persons are part of a process, such as cash disbursements, so that if a mistake is made by one, it will become apparent to another within a reasonable time period.

Currently, the Authority has one person in the bookkeeping staff who is responsible for writing cash receipts received by mail, writing checks, recording cash receipts, cash disbursements, payroll, bank transfers and adjusting journal entries as well as preparing bank reconciliations.

Monthly financial statements, conveyance of bank transfers and cash receipts deposits, and signing of checks are done by Management personnel or the Board of Directors.

With the limited bookkeeping staff, the Authority has an inherent weakness in the internal controls related to the bookkeeping functions. Segregation of these duties should be made on a practical basis.

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Authority relies on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Authority's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Authority's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Authority to perform this task internally.

A Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Higgins Lake Utility Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.

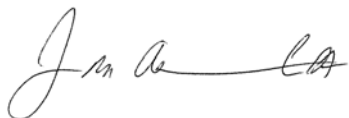
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described above I consider to be material weakness.

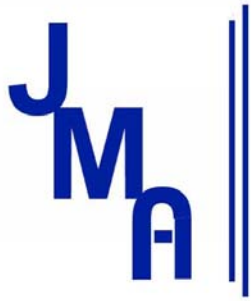
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Higgins Lake Utility Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management, Utility Authority Board, and the State of Michigan and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "J M Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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October 9, 2008

Authority Utility Board
Higgins Lake Utilities Authority
Higgins Lake, MI 48627

I have audited the financial statements of the business-type activity and major fund of the Higgins Lake Utility Authority for the year ended June 30, 2008, and have issued my report thereon dated October 9, 2008. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in my engagement letter dated October 8, 2008, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Higgins Lake Utility Authority. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Higgins Lake Utility Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Higgins Lake Utility Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Higgins Lake Utility Authority during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

MEMBER MACPA and AICPA

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Higgins Lake Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Higgins Lake Utility Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Higgins Lake Utility Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

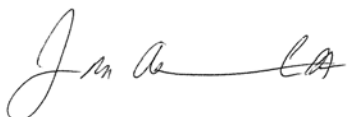
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Higgins Lake Utility Authority's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Board of Directors
Higgins Lake Utility Authority
October 9, 2008
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Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Utilities Authority Board and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

James M. Anderson, P.C.
Certified Public Accountant